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FM AMEMBASSY RANGOON
TO RUEHC/SECSTATE WASHDC 7300
RUCNASE/ASEAN MEMBER COLLECTIVE
RUEHGG/UN SECURITY COUNCIL COLLECTIVE
RUEHBJ/AMEMBASSY BEIJING 1784
RUEHBY/AMEMBASSY CANBERRA 0999
RUEHKA/AMEMBASSY DHAKA 4796
RUEHNE/AMEMBASSY NEW DELHI 4551
RUEHUL/AMEMBASSY SEOUL 8090
RUEHKO/AMEMBASSY TOKYO 5651
RUEHCN/AMCONSUL CHENGDU 1390
RUEHCHI/AMCONSUL CHIANG MAI 1461
RUEHCI/AMCONSUL KOLKATA 0248
RUEATRS/DEPT OF TREASURY WASHDC
RHHMUNA/CDR USPACOM HONOLULU HI
RUEHGV/USMISSION GENEVA 3574
RHEHNSC/NSC WASHDC
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RUEKJCS/SECDEF WASHDC
RUEHBS/USEU BRUSSELS
RUEKJCS/JOINT STAFF WASHDC

UNCLAS SECTION 01 OF 03 RANGOON 000197

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PACOM FOR FPA
TREASURY FOR OASIA:SCHUN

E.O. 12958:N/A
TAGS: ECON EFIN PREL BM
SUBJECT: REGIME FAVORS STATE-OWNED BANKS OVER PRIVATE BANKS

RANGOON 00000197 001.2 OF 003

¶1. (SBU) Summary. Although the Burmese banking sector has regained its footing since the 2003 banking crisis, the government continues to limit the ability of Burmese private banks to act as banks. According to bankers, the Central Bank of Burma closely monitors the financial transactions of the 14 private banks, limits the amount that banks can loan and thus earn in profits, and controls the number of branches a private bank can operate. Four state-owned banks account for more than 60 percent of deposits, operate the majority of bank branches throughout the country, provide funding for government programs, and are the only banks that can hold foreign currency. Despite the disadvantages, private banks continue to operate in Burma, providing financial transfer services for Burmese people, many of whom continue to distrust the banking system. End Summary.

2003 Banking Crisis

¶2. (SBU) Historically, state-owned banks have dominated Burma's banking sector, although the government opened the financial sector to private bank competition in 1992. Between 1992 and 2003, private bank operations grew dramatically, with more than 500 branches throughout the country receiving more than 60 percent of total deposits. In early 2003, twenty private banks operated in Burma and ten foreign banks had opened marketing offices in Rangoon. However, the February 2003 banking crisis, which occurred because of liquidity concerns surrounding Asia World Bank (Burma's largest private bank) and the collapse of illegal financial firms' pyramid schemes, brought the growth of private banks to a screeching halt. Most Burmese immediately lost confidence in the banking sector, running to their banks to withdraw savings until the authorities limited withdrawal amounts. Within a month of the crisis, private banks had lost more than 40 percent of their deposits, resulting in

a severe liquidity crisis. By September 2003, the Central Bank closed many private bank branches outside of Rangoon and instructed private banks to suspend credit services, and limited withdrawals and bank account transfers. The GOB also assisted private banks with a 25 billion kyat ($25 million) bailout.

Limited Bank Operations

¶3. (SBU) Since the crisis, private banks have slowly recovered and the public has gained more confidence in the financial sector, bankers tell us. In the past five years, due to both the crisis and unrelated money laundering cases, two private banks (Asia World Bank and Mayflower Bank) closed and three banks merged. There are currently 18 banks operating in Burma, four of which are state-owned -- Myanmar Economic Bank, Myanmar Foreign Trade Bank, Myanmar Agricultural Bank, and Myanmar Investment and Commercial Bank. The total number of bank branches throughout the country is approximately 600 - up 25 percent since 2003. However, state-owned banks account for almost 70 percent of branches, while the 14 private banks, which include military and semi-government banks, run only 186 branches. In 2006-2007, the GOB approved the opening of six new branches of private banks - a step in the right direction, but still only a small fraction of bank branch opening requests, bankers declared. Several banks, including Kanbawza, Yoma, and First Private Banks, have plans to open new branches in 2008, pending government approval.

Private Banks Operating in Burma

Name	Type of Bank	No. of Branches
Asian Yangon Intl Bank	Private	1
Cooperative Bank	Semi-Government	14
First Private Bank	Private	16
Innwa Bank	Military	28
Kanbawza Bank	Private	26
Myanmar Citizens Bank	Semi-Government	3
Myanmar Industrial Bank	Semi-Government	3
Myanmar Livestock, Breeding And Fisheries Dev. Bank	Semi-Government	18
Myanmar Oriental Bank	Private	18
Myawaddy Bank	Semi-Government	10
Sibin Tharyar Yay Bank	Semi-Government	2
Tun Foundation Bank	Private	2
Yangon City Bank	Private	2
Yoma Bank	Private	43
Total Number of Private Bank Branches		186

¶4. (SBU) The Central Bank strictly regulates private banking operations, limiting their ability to earn a profit, First Private Bank President U Sein Maung told us. In addition to closely monitoring their financial situation, the Central Bank also requires private banks to maintain 10 percent of total deposits as minimum reserves, sets limits on loans, controls the number of branches a private bank can open, and prohibits them from holding foreign exchange. As a result of these regulations, private banks are unable to function as real banks should, U Sein Maung lamented.

¶5. (SBU) Bank officials at Kanbawza, First Private, and Yoma bank told us that while bank business has improved since 2003, banks have limited ability to make a profit. The majority of bank transactions consist of financial transfers between headquarters and branch offices, payment transfers to outside businesses, and the issuance of small loans. Private banks charge a minimal rate for financial transfers, only 50 pyas per 100 kyats transferred($0.0004 per every $0.10) Interest rates on loans are capped at 12 percent, but due to high minimum reserve rates, the amount that banks can loan and earn in profits is limited, Kanbawza Bank Consultant U Than Lwin explained. According to Central Bank figures, in mid-2007, the 18

banks held total assets of 1.5 trillion kyats (approximately $14.2 million), although the four state-owned banks held 55 percent of the assets.

Favoring State-Owned Banks

¶6. (SBU) According to U Than Lwin, GOB regulations clearly favor state-owned banks over private banks. For example, any business that needs access to foreign currency for import/export purposes must have a bank account with the Myanmar Foreign Trade Bank (MFTB), one of three state-owned banks that deal in foreign exchange. This regulation allows MFTB to profit from high fees on foreign exchange transactions. Additionally, U Than Lwin noted, state-owned banks may open new bank branches without experiencing the same delays as private banks. In 2007, Kanbawza Bank petitioned the Ministry of Finance for permission to open five new bank branches in Shan State, Kachin State, and Mandalay Division. Aung Ko Win, owner of Kanbawza Bank and close friend of General Maung Aye, told us that the Ministry of Finance has yet to make a decision on his petition, but noted that Myanmar Economic Bank opened six new branches last year.

¶7. (SBU) State-owned banks often act outside their mandates and are not subject to Central Bank scrutiny, U Than Lwin explained. These banks often act as arms of the government, providing financing for government agriculture and trade projects. Central Bank regulations for government banks are not made public, but private bankers agree that state-owned banks do not face the same minimum reserve or capital adequacy restrictions as private banks. Although official

figures are unavailable, U Than Lwin estimated that approximately 20 percent of loans granted by the four state-owned banks are nonperforming, compared to 3 percent for the 14 private banks.

Comment

¶8. (SBU) The 2003 banking crisis provided the impetus for the government to once again take control of the banking sector. By favoring the state state-owned banks, the government manipulates the system so that the regime earns profits instead of private banks. But the state-owned banks lack the fiscal discipline necessary to be financially sound banks, shown by their high rate of nonperforming loans. It is no wonder that the public continues to distrust banks, instead using alternate financial services, such as the hundi system to transfer money or microcredit programs for small loans. Burma needs a healthy banking sector, which requires prudential bank supervision rather than government interference, more competition, and the ability to loan, in order to spur sustainable economic growth. To have that, the government must implement financial reforms and level the playing field between state-owned and private banks. The senior generals have no intention of doing so as long as they believe that tight controls over the banks best ensures their continued grip on the economy.

VILLAROSA